

This illustrative report has been prepared by the AICPA Stockbrokerage and Investment Banking Expert Panel.

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**Report of Independent Accountant
on Internal Control Pursuant to Commodity Futures Trading Commission
Regulation 1.16¹**

To Management and [*identify the body or individuals charged with governance, such as the entity's Board of Directors*] of [*ABC Company*]

In planning and performing our audit of the [*consolidated*] financial statements of [*ABC Company*] [*and subsidiaries*] (the “Company”) as of and for the year ended December 31, 20XX, in accordance with auditing standards generally accepted in the United States of America², we considered the Company’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the [*consolidated*] financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control.

Also, as required by Regulation 1.16 of the Commodity Futures Trading Commission (“CFTC”), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding customer and firm assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16 in making the periodic computations of minimum financial requirements pursuant to Regulation 1.17. Because the Company is an introducing broker (as defined by CFTC Regulation 1.3(mm)), we did not review the practices and procedures followed by the Company in making the following:

1. The daily computations of the segregation requirements of Sections 4d(a)(2) and 4d(f)(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations;
2. The daily computations of the foreign futures and foreign options secured

¹ CFTC Regulation 1.16 states that “a registrant must file concurrently with the annual audit report a supplemental report by the accountant describing any material inadequacies found to exist or found to have existed since the date of the previous audit.” The following is an illustrative report for an introducing broker registered with the CFTC.

² If an introducing broker registered with the CFTC is also registered with SEC as securities broker or dealer, PCAOB standards would apply.

amount requirements pursuant to Regulation 30.7 of the CFTC.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the CFTC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Regulation 1.16(d)(2) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

[The following paragraphs should be included in an auditor's written communication indicating that no material weaknesses were identified:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's [consolidated] financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be [material weaknesses or material weaknesses or significant deficiencies]. Given these limitations, during our audit, we did not identify any deficiencies in internal control and control activities for safeguarding customer and firm assets that we consider to be material weaknesses.]

[The following paragraphs should be included in an auditor's written communication of significant deficiencies and material weaknesses:

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be [material weaknesses or material weaknesses or significant deficiencies]

and therefore, [material weaknesses *or* material weaknesses or significant deficiencies] may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be [material weaknesses *or* significant deficiencies *or* material weaknesses and significant deficiencies].

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's [consolidated] financial statements will not be prevented, or detected and corrected, on a timely basis. [We consider the following deficiencies in the Company's internal control to be material weaknesses:]

[Describe the material weaknesses that were identified and an explanation of their potential effects.]

[A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Company's internal control to be significant deficiencies:]

[Describe the significant deficiencies that were identified and an explanation of their potential effects.]

[If the auditor is communicating significant deficiencies and did not identify any material weaknesses, the auditor may state that none of the identified significant deficiencies are considered to be material weaknesses.]]

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the CFTC to be adequate for their purposes in accordance with the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. *[If no material inadequacy is identified, include the following:* Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 20XX, to meet the CFTC's objectives.] *[If a material inadequacy was identified, include the following:* However, we identified the following condition that we consider to be a material inadequacy. *[Describe the material inadequacy that has come to our attention and its potential effects.]* Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, except for the matter described above that we consider to be a material inadequacy, were adequate at [insert date], to meet the CFTC's objectives.]

This communication is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the organization, the CFTC, [*designated self-regulatory organization*], and other regulatory agencies that rely on Regulation 1.16 of the CFTC in their regulation of registered introducing brokers and is not intended to be, and should not be, used by anyone other than these specified parties.

[Auditor's signature]

[Auditor's city and state]

[Date]